

WHEAT POOLS

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Reprinted from Norman E. Himes, Editor, *ECONOMICS, SOCIOLOGY
AND THE MODERN WORLD: ESSAYS IN HONOR OF
T. N. CARVER*, Cambridge, Massachusetts:
Harvard University Press, 1935.

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Published by the Canadian Wheat Pools





THE CANADIAN WHEAT POOL IN PROSPERITY AND DEPRESSION

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(As a Ph.D. candidate at Harvard University the author, under the general direction of Professor Carver, presented as his doctoral thesis a study of Grain Growers' co-operation in Western Canada (Published in 1928 as Vol. 32 of Harvard Economic Studies). This contained an historical and analytical treatment of the co-operative organizations and activities of grain growers of the prairie provinces of Manitoba, Saskatchewan and Alberta during the period 1900 to 1928, culminating in the climactic development of the Canadian Wheat Pool. The present essay pursues the fortunes of the constituent organizations of the "Wheat Pool" through the world depression, from the "wheat crisis" of 1929 to the enactment of federal legislation to establish a National Grain Board in July, 1935. It is essentially a study of the vitality of the co-operative principle under the test of protracted economic adversity, and of its adaptability under changing external conditions.)

GENESIS OF THE CANADIAN WHEAT POOL

THE Canadian Wheat Pool system which came into existence in 1924 was the outcome of four convergent movements or situations. These were: first, the cumulative experiences in co-operative grain marketing acquired by the prairie farmers' grain and elevator companies during the preceding decade and a half; second, the persistent desire of western wheat growers for restoration of the system of compulsory pool marketing as conducted under the federally-created Canadian Wheat Board in 1919-20; third, the disastrous decline in world wheat prices between 1920 and 1923; and fourth, the post-war development in the United States of the contract pool method of marketing farm commodities.

The way of entry into large-scale pool marketing had been paved by a long and successful experience in co-operative grain marketing, dating from the appearance in 1906 of the puny but belligerent Grain Growers' Grain Company as a farmers' commission agency upon the Winnipeg Grain Exchange. Within a half-dozen years this upstart farmers' company had taken over the bankrupt country elevator system of the Manitoba government, and placed it on a paying basis. In 1917 it amalgamated with the Alberta Farmers' Co-operative Elevator Company to form the United Grain Growers, Limited. In the meantime, by special act of the Saskatchewan legislature in 1911, the Saskatchewan Co-operative Elevator Company had entered the field as a centralized, province-wide organization, in which the stock was subscribed by farmers, and 85 per cent. of the cost of elevator construction advanced by the provincial government through 20-year mortgage loans.¹ At the close of the World War the United Grain Growers and the Saskatchewan Co-operative Elevator Company had become the two largest companies operating on the Winnipeg

¹ See H. S. Patton, *Grain Growers' Co-operation in Western Canada*, Chaps. 4-8.

Grain Exchange. Between them they handled annually 20 to 25 per cent. of all the grain marketed in Western Canada. Together they maintained country elevators at one out of every two grain shipping stations in the Prairies, and owned or leased nearly 40 per cent. of the terminal elevator capacity at the Head of the Lakes, while each operated important export subsidiaries. Through these companies prairie farmers not only gained a knowledge of the technique of grain marketing, but also acquired confidence in their capacity to compete successfully with the regular trade. Although the co-operative companies succeeded in eliminating many of the former abuses of the grain trade, and although their earning record permitted the accumulation of large surpluses and the payment of substantial stock as well as cash dividends to their 63,000 farmer shareholders, neither company found it practicable to carry out the co-operative principle of patronage distribution of earnings, and sporadic complaints began to arise from farmers that the companies had adapted themselves too closely to the established practices of the regular grain trade.²

The creation by the federal government, under wartime emergency powers, of the Canadian Wheat Board as an exclusive agency for the handling of the short 1919 wheat crop on a pooling basis, had been undertaken primarily to protect consumers against speculative excesses and as a counterpart of inter-governmental wheat purchasing by the European allies. To the western wheat growers, however, it afforded an impressive demonstration of a method of marketing, under which future trading was suspended, internal competition was eliminated, handling margins and grade differentials were narrowed, and the grower was paid on the basis, not of current market prices at time of delivery, but of the average returns realized from the entire crop. The initial payment, plus the liquidated value of growers' participation certificates, were equivalent to \$2.65 per bushel, basis No. 1 Northern at lakehead position. When, therefore, the decision of the Dominion government not to continue the Wheat Board operations was accompanied by a price debacle on the re-opened grain futures exchange that carried No. 1 Northern below \$1.50, as the crop began to move, it was not surprising that the western grain growers' organizations should have united in strenuous demands for a re-established Wheat Board.

The agitation was continued throughout the period of falling grain prices (1921-1923), but when, despite federal enabling legislation for the establishment of provincial wheat boards, it was found impossible to set these up on an effective basis, the grain-growers' organizations turned to the alternative of voluntary contract Pools.³ This system was at that time at the height of its favor in the United States, under the dynamic advocacy of Aaron Sapiro of California, who was brought into Alberta and Saskatchewan in the summer of 1923.

Sponsored by the provincial farmers' associations, and aided by organizational loans from the provincial governments and co-opera-

² See H. S. Patton, *Grain Growers' Co-operation in Western Canada*, Chaps. 13-18.

³ For discussion of events of this period, see H. S. Patton, *Grain Growers' Co-operation in Western Canada*, Chap. 13.

tive elevator companies, wheat pool contract "sign-up" campaigns were conducted as a veritable crusade in the three Prairie Provinces. The Alberta Pool was the first to get under way in the late fall of 1923, followed the next season by the inauguration of the Saskatchewan and Manitoba Pools, and by the co-ordination of the three through an inter-provincial selling agency, incorporated as the Canadian Co-operative Wheat Producers, Limited. The fortunate conjuncture of a marked rise in world wheat prices in the short crop year of 1924-25 gave a great impetus to the movement, and by the end of the second year approximately three out of every five wheat growers between the Lake of the Woods and the Rockies had signed five-year pool contracts.

THE POOL ELEVATOR SYSTEM

At the outset the provincial pools were dependent on contracts with the private and co-operative line elevator companies for the receipt, storage and forwarding of the wheat delivered by their members. The growers' contracts contained provision, however, for maximum deductions of two cents per bushel from each member's final returns, for elevator reserve purposes (as well as one per cent. for commercial reserve). Beginning with Saskatchewan in 1925 each of the Pools decided to apply this provision with a view to acquiring elevator facilities of its own. It was felt that this would ensure more economical, expeditious and more directly-controlled movement of pool grain from point of members' delivery to terminal position, and that pool elevator operators would function as permanent contact agents between Pool headquarters and locals at country shipping points. Negotiations were entered into between the three Pools and the two established farmers' co-operative companies for the acquisition of the facilities of the latter by the former. The United Grain Growers, Ltd., which operated some 380 country elevators throughout the three Prairie Provinces, finally voted to reject a joint offer of purchase from the three Pools, mainly on the ground that it was desirable to preserve the company's facilities for the use of farmers who did not choose to sign Pool contracts as well as for Pool members. The company undertook, however, to continue to handle Pool grain at special rates.

In Saskatchewan where the majority of stockholders in the Saskatchewan Co-operative Elevator Company had become Pool members, the company voted in August, 1926, to sell its entire assets to the Saskatchewan Pool at a price subsequently fixed by arbitration at \$11,061,269.⁴ This transaction, which at a stroke added 451 country elevators and three large modern terminal elevators to the Saskatchewan Pool Elevators, Ltd., represented a victory of the principle of making capital investment in handling facilities subsidiary to contract control of the commodity itself. By purchase, lease or new construction the three Pool organizations had by 1929 acquired 1,642

⁴ A \$2,000,000 cash payment was made at the time of purchase by the Saskatchewan Pool, which assumed outstanding mortgage obligations of \$2,091,565 owed by the company to the Saskatchewan government. The remaining \$8,969,704 of the purchase price was payable to the liquidators of the company in seven annual instalments.

country elevators, approximately one-third of all those in the Prairie Provinces. In addition to their country systems the three Pools own or lease seven modern terminal elevators at the Head of the Lakes, and four on the Pacific coast, with a combined capacity of over 36,000,000 bushels, or more than a third of the total terminal storage on the eastern and western fronts of the grain belt of Western Canada.

The capital financing of this, the world's largest elevator system, which was built up during a period of five years, was accomplished without any selling of securities and without any government loans. The funds were obtained entirely from the annual deductions from growers' returns, on elevator and commercial reserve accounts, which by 1929 had reached a cumulative total of nearly \$29,000,000. Each member received certificates to the amount of his deductions, with interest, generally at 6 per cent., paid or credited on his elevator reserve account. His individual equity in Pool capital assets was thus directly proportionate to the extent of his grain deliveries to the Pool. Operating under the double advantage of assured patronage and of centralized and integrated management, the Pool elevator subsidiaries were able, not only to reduce handling charges and street grain spreads, but also to realize excess earnings which permitted patronage distributions in cash or credits to members of over \$6,000,000 between 1925 and 1929. The development of the Pool elevator systems up to 1929 is summarized in the following table.

Table I—Statistics of the Pool Elevator System, 1925-1929

Pool	Elevator Reserves (Cumulative)	Commercial Reserves totals, 1925-29)	No. of country elevators (1929)	No. of Terminal elevators	Rebated excess elevator earnings 1925-29
Manitoba.....	\$ 1,897,333	\$ 932,860	155	3	\$ 427,977
Saskatchewan	12,195,488	6,572,706	1,048	6	4,268,934
Alberta.....	4,496,680	2,436,511	439	3	1,470,214
Three Pools	\$18,589,501	\$9,942,077	1,642	12	\$6,167,125

(Source: Canadian Wheat Pool Year Book, 1930.)

THE POOL MOVEMENT AT ITS CREST

The Canadian Wheat Pool attained the peak of its prestige in 1928-1929, the fifth year of combined operation. At that time the three western organizations boasted 140,779 wheat pool contracts, and 67,532 coarse grain contracts, while the Ontario Grain Pool, formed in 1927, accounted for an additional 13,200 members. The total handlings through the Central Selling Agency for the first five years exceeded a billion bushels of grain. This represented approximately 52 per cent. of the total wheat deliveries by farmers in the Western Inspection Division. Of the record wheat crop of 1928 the Canadian Pool handled approximately a quarter of a billion bushels. As Canada contributed in this peak year 42 per cent. of the total international shipments of wheat, and wheat equivalent in flour, the Pool was thus responsible for fully a fifth of the greatest amount of wheat (943,000,000 bushels) that had ever moved into international trade in a single year.

Table II—Deliveries of Wheat to Canadian Wheat Pool, 1924-30

Crop Year	Pool Deliveries	Total Deliveries in Western Inspection Division	Per Cent. Pool Deliveries
	<i>Bushels</i>	<i>Bushels</i>	
1924-25	81,668,348	219,241,130	37.3
1925-26	187,364,999	358,715,990	52.2
1926-27	179,993,435	338,936,053	53.1
1927-28	209,908,536	410,617,091	51.1
1928-29	243,929,491	475,711,628	51.3
1929-30	121,655,589	236,967,251	52.0

(Source: Canadian Wheat Pool Year Book, 1930.)

During this five year period the Central Selling Agency distributed in cash payments and reserve credits over a billion dollars to the provincial Pools, as shown by the following table:

Table III—Wheat Pool Payments, 1925-29

Pool Year	Price basis (wheat) (a) per bushel	Amount Distributed to Members (b)	
		Wheat	Coarse Grains
1924-25	\$1.66	\$ 123,398,955	
1925-26	1.45	256,943,806	
1926-27	1.42	230,767,037	\$15,946,357
1927-28	1.42 1/2	246,976,260	14,004,668
1928-29	1.18 1/2	232,175,545	21,149,660
Total		\$1,090,261,603	\$51,100,685

(a) Basis No. 1 Northern, Fort William. (b) Including reserve fund deductions.

(Source: Canadian Wheat Pool Year Book, 1930.)

The Pool marketing system represented co-operative uniformity and centralization on an unprecedented scale. While the contracts of each of the 150,000 or more members ran with their respective provincial Pools, no selling was undertaken by the latter. Their business was to secure new members and maintain patronage,[†] to acquire, finance and operate elevators through appropriate subsidiaries, to supervise the delivery of members' grain, to forward it to Pool terminal elevators, and to turn over the terminal storage certificates to the Central Selling Agency. The latter, in which the capital stock was jointly and equally held by the three provincial Pools, was responsible for all sales through its wheat and coarse grain divisions. It also made arrangements with banks for the financing of initial payments to growers upon delivery through Pool elevators or elevators under contract. As sales were made, the Central repaid the banks' advances, and pro-rated the additional proceeds to the respective Pools, which made interim and final payments against growers' participation certificates, retaining the contractual elevator and commercial reserve deductions.

Two distinctive features of the Pool marketing system deserve special note. These were its methods of risk-bearing and of direct selling. Inasmuch as the Pools did not buy the farmers' grain outright, but merely made an initial scheduled delivery payment, substantially below the market price, they did not undertake to hedge their receipts by making immediate sales on the futures market. The United Grain Growers and the Saskatchewan Co-operative Elevator Company had followed the regular practice of the trade in thus protecting themselves on their country purchases. Under the Pool system, however, the risk of price fluctuations was spread over the entire membership. The same principle had been applied under the Canadian Wheat Board in 1919-20, when future trading was suspended.

The second distinctive feature in Pool merchandising was the policy of establishing direct sales connections with the principal wheat importing countries. By 1927 the Pool had 27 agency connections with grain-importing houses in 15 countries on four continents; with a branch of its own in London for the purpose of dealing directly with the great British millers' market and of maintaining closer contacts with continental agencies. During this period from two-thirds to three-quarters of the total business of the Central Selling Agency represented direct sales to domestic and foreign millers and overseas importers. The considerations underlying this policy were that it would not only secure a greater volume of export business, but would also enable the grower to receive a larger share of the price in final markets. Each day the head office in Winnipeg cabled its quotations to its London office and continental agencies, and as orders were confirmed, chartered the necessary ocean tonnage through its Montreal, New York and Vancouver offices. Due to the huge volume of its turnover, and to the savings in brokerage fees through its seaboard and London offices, the Central Selling Agency was able to carry on its ramified operations in 1928-29 at a unit administrative expense equivalent to only 1/25 of a cent per bushel of pool wheat delivered.

THE CRISIS OF 1929-30

The spectacular success of the Canadian Wheat Pool movement had, not unnaturally, engendered a defensive hostility on the part of the private grain trade abroad as well as at home, which impending developments in the international wheat situation were about to afford an egregious opportunity of converting into open attack. The establishment of the Pool's office in London and its "direct selling" policy were not regarded with favor by the British grain trade in general. To have an overseas farmers' agency in control of half of Canada's wheat supply, quoting its daily selling price directly to British buyers, was, in the eyes of the larger importers and millers, something of an interference with that keen competition among exporters to which they had been long accustomed. Thus George Broomhall, writing in the *London Times* in 1927, had stated:

Before the Pools were in existence merchants were sometimes heard to say that wheat was being flung at them, but it is not so now. The Pool's aim is to feed the market.

The fact that the base prices realised by the Pool for the three crop years, 1925-26, 1926-27, and 1927-28 has been \$1.45, \$1.42 and \$1.42 $\frac{1}{4}$, respectively (Table III), would appear to indicate considerable success in stabilizing returns to its members at a high level. To attribute this result, however, solely to the Pool's merchandising policy is to give undue credit, or blame—according to the point of view—to the influence of an agency controlling less than a fifth of wheat-export movement in probably the most highly competitive of world markets. The truth would appear to be that the Canadian Wheat Pool had come into existence under a favorable international conjuncture in which the gold price level was relatively stable, in which international loans and investments were being made in unprecedented peace-time volume, in which European wheat imports attained record proportions, and in which Canada had assumed first rank as a wheat-exporting nation. While the Pool had indeed endeavored to realise the full competitive value of its holdings on world markets, through "orderly merchandising," this had not implied any undue withholding of its stocks, since the end of the 1927-28 pool year found the Central Selling Agency completely sold out.⁵

A different situation existed at the end of the 1928-29 crop year. In 1928 Western Canada produced the largest wheat crop in its history—545 million bushels. This occurred in conjunction with a record world yield of 3,945 million bushels (exclusive of Russia and China), an amount 464 million bushels in excess of the average production for 1923-27. Although international wheat and flour shipments in 1928-29 also established a record of 943 million bushels, the carryover in the four principal exporting countries on August 1, 1929, amounted to 554 million bushels. This was 187 million more than at the corresponding date in 1928, and 313 million greater than in 1926. The unsold stocks in the hands of the Pool Selling Agency at the end of the 1928-29 pool year (August 31) were 48 million bushels, making it necessary to defer final payments to members.

At the opening of the 1929-30 crop year, the statistical position outwardly appeared somewhat easier, and was reflected in rising prices on the speculative markets, Winnipeg prices being carried above the \$1.50 mark for September. Severe drought conditions in Western Canada indicated a crop of only about one-half of the record harvest of the preceding year, while prospects were for much smaller crops in other exporting countries. Under these conditions the Pool announced for 1929 deliveries the same initial basis of payment, \$1.00 a bushel, as for the 1924 to 1927 crops. In the event it was extremely unfortunate that the initial payment basis of 85 cents for the 1928 crop was not adhered to. Prices began to decline with the movement of the 1929 crop, and the New York Stock Exchange crash of October was transmitted to the grain markets, the December future falling to \$1.20 in Winnipeg in early November. While some recovery occurred towards the end of the year, the downward course was resumed in

⁵ Canadian Co-operative Wheat Producers, Limited, Directors' Report, 1927-28.

January, 1930, and by June, Winnipeg prices fell below the level of the Pool's initial payment.

The Canadian Wheat Pool has been roundly condemned for not following Argentina's example in moving out its holdings during 1929-30 regardless of price. In an address at Regina in March 1930, Mr. A. J. McPhail, President of the Central Selling Agency, stated that by May, 1929, the Pool had disposed of 174 million out of its total holdings of 255 million bushels, but that thereafter "we found that Argentine prices simply kept falling away from ours . . . and if we were to have taken such an attitude as to force our prices to a parity with Argentine, no one could have predicted to what level prices would have declined." Despite the fact that during the three months preceding the country movement of the abnormally light 1929 Canadian crop, the Pool, on 52 of the 76 market days, offered wheat for export at from 1 to 13 cents below Winnipeg market quotations,⁶ it entered the new pool year with 48 million bushels unsold or uncovered by open contracts. This, however, was only 41 per cent. of the total Canadian carryover, although the Pool's share of the total marketings was 51.3 per cent. In view of this situation and of the fact that the Pool had entered the preceding crop year without any carryover, the widely circulated charge that the Pool was primarily responsible for the accumulation of excessive surpluses, appears to rest on a prejudiced foundation.

Table IV—Pool's Proportion of Total Canadian Wheat Carryover, 1926-1930

July 31 (a)	Total Carryover Canadian Wheat	Unsold Pool Wheat	Grain Trade Percentage of Carryover	Pool Percentage of Carryover	Percentage of Crop Marketed by Pool
	(<i>Million</i>	<i>Bushels</i>)			
1926	39	20	48.6	51.4	52.2
1927	53	39	26.4	73.6	53.1
1928	72	12	86.5	13.5	51.1
1929	127	52	59.0	41.0	51.3
1930	130	67	48.6	51.4	51.3
Total	421	190 (ave.)	56.8	43.2	51.4

(a) Pool year ended August 31st.

(Source: Alberta Wheat Pool (1931), *A Defence of Canada's Wheat Pool*, p. 18.)

As will be recognized by any student familiar with the economics of world wheat production and trade following the World War, and with the complex of international economic, monetary, cyclical and nationalistic influences operative in the wheat price debacle of 1929-31, the Canadian Wheat Pool was the victim of circumstances beyond its own creation or control. The chief criticism that may be brought against it is that its leaders failed at that time to judge the future and

6 Alberta Wheat Pool (1931), *A Defence of Canada's Wheat Pool*, p. 22.

the international situation with greater discernment than the Canadian grain trade in general⁷ or the Federal Farm Board in the United States; and that in setting its initial payments for the 1929 pool, and in marketing its stocks, the Pool allowed itself to be influenced more by the experience of the past few years, and by the purely statistical position, than by an appreciation of an unbalanced international economic situation and of the reactions of national psychology in European countries. Probably no one could foresee the depth, violence and duration of the ensuing world depression in which wheat prices in exporting countries were borne down to the lowest level in trade history, amid the general collapse of all values, except that of gold.

THE "DEFLATION" OF THE CANADIAN WHEAT POOL

By January, 1930, the downward course of prices on the Winnipeg market had so imperilled the 15 per cent. margin which the Central Selling Agency, in accordance with its arrangements with the Canadian banks, was required to maintain against its loans, that the banks threatened to liquidate their collateral. In order to avert the disastrous results of the dumping of such large quantities of wheat on a declining market, the Pool leaders appealed to the governments of the three Prairie Provinces for assistance. Realizing the issues at stake and believing that the embarrassment was only temporary, the three premiers agreed to enter into an agreement on behalf of their respective governments to guarantee the lending banks against any ultimate loss resulting from their loans to the Pools.

Experiencing the greatest difficulty in disposing of the light 1929 deliveries, and confronted by ever-dwindling prices, the Pool leaders held anxious conferences concerning the initial price basis for the 1930 pool. A temporary initial price of 70 cents was decided on early in the summer, then reduced to 60 cents at the commencement of the season, and subsequently, at the insistence of the bankers, dropped to 50 cents. As values continued to decline, the support of the federal government was invoked. An arrangement was finally consummated in November, 1930, whereby the banks agreed to continue the financing of the Central Selling Agency, under a federal government guarantee, on condition that Mr. John I. McFarland, an able and trusted grain dealer, should be installed as manager of the Agency, with the disposal of the 1929 carryover and the 1930 pool placed entirely in his hands. In effect the Pool had been put under receivership.

One of the first acts of the new controller was to close the Pool's overseas sales offices. In a statement issued on December 4, 1930, Mr. McFarland announced that this was undertaken as an experiment "to demonstrate beyond possibility of doubt the truth or otherwise of the statement frequently made that the maintenance of direct

⁷ In the Review of the World Wheat Situation in 1920-30, the Food Research Institute of Stanford University commented: "There was in Canada an overvaluation of the prospective European imports of wheat and flour generally; an overvaluation shared alike by the pools, private traders, millers and speculators."—Wheat Studies, VII, 140.

representation overseas has militated against the sale of Canadian wheat." The move was greeted with satisfaction by British importers and millers, who, there appears little reason to doubt, had extended a definite buying preference during 1929 and 1930 towards Argentine and Russian wheat, in protest against the direct selling and controlled marketing policy of the Pool.

Despite the fact that Canada forced her exports of wheat and flour during 1930-31 to the extent of 258 million bushels (equivalent to 40 per cent. of the total shipments of the "big four" exporting countries), she entered the new crop year with a record carryover of 140 million bushels in all positions, and with prices sinking to the 50 cent level.

Under these disastrous conditions Pool leaders had to decide whether or not they should seek to continue the contract methods in the marketing of the 1931 crop. With the Central Selling Agency no longer under their control, and its functions limited to the liquidation of the 1929 carryover and the 1930 pool on behalf of the Pool's creditors, with the Federal government unwilling to establish a national wheat board, and with the realization that initial payments would have to be on such a pitifully low basis that most contracts would be unenforceable, representatives of the three Pools decided in June, 1931, that they should operate henceforth as separate units, and that their members should be released from their contracts, and given the option of delivering their grain on a pooling basis, or of selling on the open market through Pool elevators.

Thus step by step, under the stress of international circumstances, the impressive Pool system which had attained such a commanding position in the world's grain trade during the late twenties, was stripped of its most distinctive features. Direct selling abroad had been abandoned, the Pool's powerful Central Selling Agency had been converted into a liquidating agency, their elevators had been pledged to secure their obligations on account of 1929 overpayments, and their growers' contracts, on which the whole system had been based, were now declared non-effective. The "deflation" of the Canadian Wheat Pool appeared to be complete.

READJUSTMENTS BY THE PROVINCIAL POOL ORGANIZATIONS

Although the centralized Pool structure had been wrecked, the underlying co-operative organizations of the prairie grain growers were not extinguished. The three provincial pool associations resolutely set themselves to maintain a producer-controlled marketing system for their members, while adjusting their organization and operations in accordance with the dictates of their formidable liabilities and with the exigencies of the calamitous world wheat situation.

Although their growers' contracts were no longer operative, each of the provincial Pools possessed valuable and tangible assets in their respective elevator systems which had originally developed as a mere auxiliary to Pool contract marketing. It was on these tangibles that

the Pools now depended, both to secure their obligations to the guaranteeing governments, and to save their co-operative organizations.

The extent of the 1929 initial overpayment, as established by the final accounting of the wheat and coarse grains pools, was found to exceed \$22,000,000. As the outcome of protracted negotiations among the three Pools, the seven creditor banks, and the three guaranteeing governments, the latter issued to the banks special $4\frac{1}{2}$ per cent. bonds (at a discount of 2 per cent.) to cover their respective shares of the unpaid bank loans with accrued interest. The provincial Pools in turn deposited with their respective governments bonds for corresponding amounts, payable with interest at 5 per cent. on a 20-year amortisation basis. These were secured by pledge of Pool country and terminal elevator properties. The obligations of the three Pools to their respective provincial governments were established as follows: Alberta, \$5,649,000; Saskatchewan, \$13,752,000; Manitoba, \$3,491,611. Except in the case of Manitoba,⁸ these formidable obligations were more than covered by the free assets of the Pools. The balance sheet of the Alberta Pool, as of July 15, 1932, showed its net free assets to exceed by \$3,841,000 its capital liability to the provincial treasury. In the case of the Saskatchewan Pool the corresponding figure was in excess of \$7,000,000.

In Saskatchewan and Alberta the Pools worked out a detailed plan of individual adjustment with members who had participated in the 1929 initial overpayment. Thus in the former province it was agreed that against each growers' established individual overpayment there should be credited: (a) such sum as might be due him on account of the final 1928 pool settlement; (b) interest due him on previous elevator reserve deductions; (c) his patronage share of excess elevator earnings. Adjustment of any remaining liability might be finally made by cancelling an equivalent amount of commercial or elevator reserve certificates standing in his name.

It will thus be seen that the main reliance of the Pools for the liquidation of their unforeseen liabilities, and for the preservation of their organization, rests upon the potential earnings of their elevator systems. In giving their members the option of participating in voluntary pools⁹ or selling their grain on the open market, the Pools have appealed to their loyalty to put their grain through Pool elevators, and use the Pools' sales departments. They have had their elevators licensed as public instead of private warehouses, as formerly, and have made strong bids for non-member as well as member patronage. All country purchases have been hedged in the future market. The

⁸ Under the Manitoba "Four Party Agreement" of 1932, the provincial government agreed to absorb \$1,400,000 of its bank-guarantee liability, and to accept the remaining \$2,100,000 of its claims on the Pool in the form of redeemable stock of the reorganized Manitoba Pool Elevators.

⁹ The amount of wheat handled on optional pool basis has been of insignificant proportions, and in order that the pooled returns of farmers making early deliveries should not be unduly reduced by later deliveries at lower price levels, "cut-offs" were declared at various dates during the 1932-33 crop year. The situation reveals the limitations of the pool method of payment under the conditions of a persistently declining market.



"Pools" in fact have, since 1930, been operating on substantially the same basis as the older farmers' co-operative elevator companies.¹⁰

The results to date have been noteworthy. The Saskatchewan Pool Elevators handled 40.5 per cent. of all grain marketed in the province in the 1931-32 crop year; and 43 per cent. in the 1932-33 crop year. In August, 1933, the company completed its final purchase payments of \$2,085,065 on account of the acquisition in 1926 of the properties of the Saskatchewan Co-operative Elevator Company, thereby extinguishing within the seven contractual years its entire purchase commitments of \$11,061,289, plus interest payments of \$2,150,331. In addition the Saskatchewan Pool met in full its instalment of \$1,128,589 to the provincial treasury on account of the 1929 overpayment. The Alberta Pool likewise met its provincial obligation of \$452,950 on similar account, leaving a net elevator operating profit of \$179,055 from its 439 elevators during 1932-33. In Manitoba the reorganized Manitoba Pool Elevators showed a net operating profit of \$300,835 for the year ending July 31, 1933, out of which accrued interest and principal obligations to the Manitoba government amounting to \$230,813 were discharged, leaving approximately \$70,000 as addition to operating reserve. The depression record of the Pool elevator organizations affords an impressive demonstration, on the one hand, of efficiency and adaptability of organization and management, and on the other hand, of patronage loyalty and of financial integrity of the membership in fulfilling contractual debt obligations, however burdensome. The record would also appear to vindicate the wisdom of the system of elevator and commercial reserve deductions under the pooling contracts. But for the substantial equity thereby acquired in grain handling facilities, the Pool organizations would have been inevitably extinguished through the collapse in 1930 of the value of grain collateral against commercial bank loans.

STATUS OF THE CENTRAL SELLING AGENCY

As previously stated, the control of the Central Selling Agency was divorced from the provincial pool organizations in November, 1930, when, as a condition of continued bank financing under federal guarantee, the disposal of the 1929 pool carry-over and of the 1930 pool¹¹ was placed entirely in the hands of Mr. John I. McFarland, acting as Manager of the Agency on behalf of the pools' banker and governmental creditors. The situation was one of extreme difficulty. The Canadian wheat crop of 1930 was 38 per cent. larger than the abnormally low crop of 1929. Continental European import restrictions were intensified. Although the wheat stabilization operations of the Federal Farm Board eased export pressure from the United States, Russia reappeared in 1930-31 for the first time since 1913 as

10 The United Grain Growers has succeeded in weathering the grain crisis without suspending in any year cash dividend payments to its farmer stockholders, although it sustained substantial operating losses in 1929-30.

11 Approximately 127,000,000 bushels of wheat and 15,000,000 bushels of coarse grains were delivered to the 1930 pool.

a significant wheat exporter, with shipments of 114,000,000 bushels. While no official accounting of the 1930 pool is as yet available, it appears that the liquidation of pool stocks was subordinated by Mr. McFarland (with the approval of the federal government) to considerations of price support on the Winnipeg market. Cash sales by the C.S.A., it is understood, were gradually replaced by purchases of futures.

As wheat prices continued to decline during the 1931-32 crop year, and as speculative support for hedging contracts by cash buyers was found to be almost completely lacking, the Dominion government entered into an informal arrangement with Mr. McFarland to purchase grain futures through the C.S.A., when considered necessary to stabilize prices on the Winnipeg market. While no report of these operations has been made public, it is understood that the Agency's holdings of futures reached substantial proportions towards the end of 1932.¹²

The Dominion government, it will be observed, has utilized the former Pool Central Selling Agency in much the same way (although on a smaller scale and with less directness and publicity) as the Grain Stabilization Corporation was employed under the Federal Farm Board in the United States to support wheat markets after 1929. There is a certain irony in the fact that the Pool Central Agency, which was created as an alternative to organized speculation, should have been destined to become the instrument of speculative support to the futures market, and in the further fact that what was established as a co-operative substitute for a government wheat board should continue to operate under the sponsorship of the federal government.

THE POOLS AND THE INTERNATIONAL WHEAT AGREEMENT

As the formation of the Canadian Wheat Pool in 1924 was the outcome of the failure of prairie grain growers to secure the re-establishment of a national wheat marketing board after the 1919-20 pattern, so the breakdown in 1930 of the voluntary system of interprovincial pool marketing and the continued downward course of wheat prices led to renewed demands expressed in resolutions of pool delegate meetings, for an inclusive wheat-marketing agency with compulsory powers. Although united on this point, Pool leaders were quite aware that, with Canada dependent on export outlets for something like three-quarters of its normal wheat crop, not even the most complete and competent national-marketing control would, in itself, be effective in controlling price. The experiences of the Central Selling Agency had fully brought home to the Pool organization the cogent realities of competition among wheat exporting countries, of the protective

¹² Commenting on these operations in its *Review of the World Wheat Situation, 1931-32*, the Food Research Institute stated: "The trade has inferred that holdings of the agency in cash wheat were more than 75 million bushels at the end of 1930; that by the end of April, 1931, the cash wheat had been transferred to futures; that substantial additional purchases of futures, designed to support the market, were made in July, 1932, and still more in Sept.-Nov.; and that holdings of futures approximated 125 million bushels in Mid-Nov., 1932."—*Wheat Studies*, IX 80-81.



and nationalistic forces behind European import restrictions, and of the price-determining influence of mounting world carry-overs. As an outcome of conferences toward the end of 1932 between Pool leaders and the western premiers, formal representations were made to Prime Minister Bennett, urging that Canada should take the initiative in convening a conference of the principal wheat-exporting countries, with a view to arriving at an international agreement for the regulation of wheat export.

The steps leading to the International Wheat Agreement, signed at London by representatives of 22 nations in August, 1933, need not be reviewed here. The pact is notable in that it represents the first international commodity agreement to involve participation by importing as well as by exporting countries, with the former undertaking to relax import restrictions and encourage wheat consumption in consideration of the adoption of concerted export restrictions by the latter group. Under the terms of the agreement, Canada was allotted for 1933-34 an export quota of 200 million bushels of wheat, equivalent to 35 per cent. of the global figure of 560 million bushels accepted as the measure of world import demand for that year.¹³ Under the formula applicable to export allotments for 1934-35 (viz., 15 per cent. less than the average production from the average acreage sown during 1931-33, less normal domestic requirements) Canada's quota would amount to approximately 195,000,000 bushels.

The principles of the London agreement were strongly endorsed by the three Canadian Pool organizations at their 1933 annual meetings, which gave special consideration to the measures by which Canada should implement its commitments under the pact. To this end the three provincial Pools united in support of the following three-point policy:

- (1) The establishment of a national wheat marketing board as the exclusive agency for handling Canada's wheat exports.
- (2) Adjustment of Canada's exports to the level permitted for 1934-35 to be effected, not by compulsory limitation of acreage, but by the assignment of marketing allotments to individual growers.
- (3) The fixing of a minimum price for wheat consumed in Canada.

Until recently the action taken by the federal government has not been in accord with the above demand of the Pools. No control machinery indeed proved necessary to hold Canada's wheat exports within the London quota, her unrestricted shipments amounting to only 195 million bushels during 1933-34. Government participation continued to take the form of stabilizing prices on the Winnipeg market, through federal guarantees to banks financing purchases of futures by the Canadian Co-operative Wheat Producers under the manage-

¹³ For 1932-33 world export shipments amounted to 615,000,000 bushels; for the five preceding years they had averaged 778,000,000 bushels. Canada's exports for 1929-33 averaged 229,000,000 bushels.

ment of Mr. McFarland. While this indirect government support has proved effective in "pegging" Winnipeg prices above the 80 cent level during the current (1934-35) crop year, it has reacted unfavorably on the export movement of Canadian wheat, in the face of forced selling by Argentina, which has refused to abide by the quotas offered by the International Wheat Committee. Despite two subnormal crops (averaging 279 million bushels) in 1933 and 1934, a carryover of from 170 to 180 million bushels of Canadian wheat at the beginning of the new crop year is indicated.

REALIZATION OF A NATIONAL GRAIN MARKETING BOARD

Under these circumstances Premier Bennett introduced in June of this year (1935) a Grain Board bill along lines advocated by the Pools. In the Parliamentary hearings it was disclosed that Mr. McFarland's agency was holding on May 31 cash wheat and futures totalling 228 million bushels, acquired at an average basic cost of 85 cents, which if sold at current prices would involve a loss of about \$11,000,000. The Act as passed by Parliament provides for a National Grain Board of three members, with an advisory committee of seven, including four producers, which shall take over the holdings of the stabilization agency, and operate a selling pool for producers only, who shall be paid a fixed minimum price. The monopoly marketing powers, involving the discontinuance of future trading, as contained in the original bill, were in the final Act made permissive instead of mandatory.

Despite its non-compulsory character the new legislation substantially realizes the insistent objective of the Pool organizations which, it will be recalled, were originally formed in 1924 only when the effort to have the war-time Wheat Board re-established proved unattainable. It is apparent, however, that the disposal of the stabilization holdings in conjunction with a minimum price acceptable to producers, must necessarily involve a government subsidy, such as Australia has been extending to her wheat growers. Failing an improvement in the international wheat situation, Canada's wheat acreage must inevitably be adjusted to a lower export volume than that realized during the 'twenties when the Pool was in the ascendant. Such selective adjustment is indeed in process, with an increasing trend toward the feeding of coarse grains and off-grade wheat to livestock, stimulated by the preferences accorded Canadian bacon and dairy products in the British market under the Ottawa agreement of 1932. The Prairie Provinces, however, are conspicuously adapted to the production of high protein wheat, and Canada has developed a system of grading, storage and transportation for grain superior to that of any wheat-exporting country. Within that system the organized grain growers have acquired, and continued to operate successfully throughout the depression, elevator facilities at most of the local shipping points and at the lake-head and Pacific terminals. Although the pool contract system has collapsed, the Pool organizations have finally achieved legislative realization of their larger objective of col-

lective marketing through a national grain Board. Hitherto the government has sought to increase growers' return through support of the speculative market. The new policy contemplates national wheat marketing, with speculative risks borne partly by producers on a pooling basis, and partly by taxpayers, depending on the minimum price established.



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